FORESTRY FUTURES TRUST ONTARIO

2013/14 Annual Report

Forestry Futures Committee
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CHAIR'S MESSAGE

If I had to characterize this year in a few words, I would define it as a year in motion. We continue to function with a working Chair that carries out the function of day to day operations of the Committee and its roles and responsibilities.

The Committee reopened each of our core program areas to look at our progress, our processes, and the lessons learned. In keeping with the government's direction of drilling down to core activities and to consider a risk management approach to delivering programs, we re-examined, revised, and/or reconfirmed the objectives or intent of each of our program areas. The Forestry Futures Committee (FFC) revisited the project applications forms and processes to ensure that the information we are asking for has relevance for ensuring that the funds are used for the intended purposes and are useful for setting priorities should there be more demand than funds available. We also reviewed our management tracking systems to ensure we are meeting our requirements for sound fiscal oversight. In the coming year, a series of workshops and conversations will be held to gain feedback and input from those that apply for funding through the Forestry Futures Trust (FFT). Special attention was given to reviewing the IFA program in order to provide constructive suggestions and recommendations to Ministry of Natural Resources Forestry (MNRF) for going forward with the updated audit program within today's forest environment.

We took the time to revisit some of the original silvicultural projects with the field foresters to view the forests 15 years or more after treatment. The results were promising. The majority of the projects could be relocated and the stands were responding well to the treatments. These site visits will continue into next year as part of our response to concerns expressed by the forest community as to the actual on-site success of FFT investments. The Committee participated in the MNRF thorough review of the silvicultural program in both the Renewal Trust and the FFT programs. The outcome of their review and assessment of effectiveness will provide additional background to the FFC that may aid in setting priorities for funding in the coming years.

Ontario's forest sector outlook seems promising after a few years of significant challenges. Forestry businesses have been reinventing and restructuring themselves to expand their products, their markets, and their way of doing business, while remaining committed to sound environmental performance. The new tenure arrangements are slowly being implemented with the establishment of a crown agency Nawiinginokiima Forest Management Corporation (NFMC) and the introduction of Enhanced Sustainable Forest Licenses (ESFL) program, two new tenure models adopted by the government. The Enhanced Resource Inventory (eFRI) program has wrapped up the capture of the digital imagery and is focusing on the interpretation phase to deliver the forest inventory information to forest managers.

This year we approved funding of over $4.1 million for silvicultural projects, $282,000 for Independent Forest Audits on three forests (Dryden, Kenora and Ottawa Valley), flowed $12.7 million to fund the eFRI program, and reimbursed $204,000 in claims under the ESFL transition program.

As an overview of the last 10 years of the Trust program, Figure 1 displays the fluid state of the forest industry and how the FFT has responded with sound fiscal management.

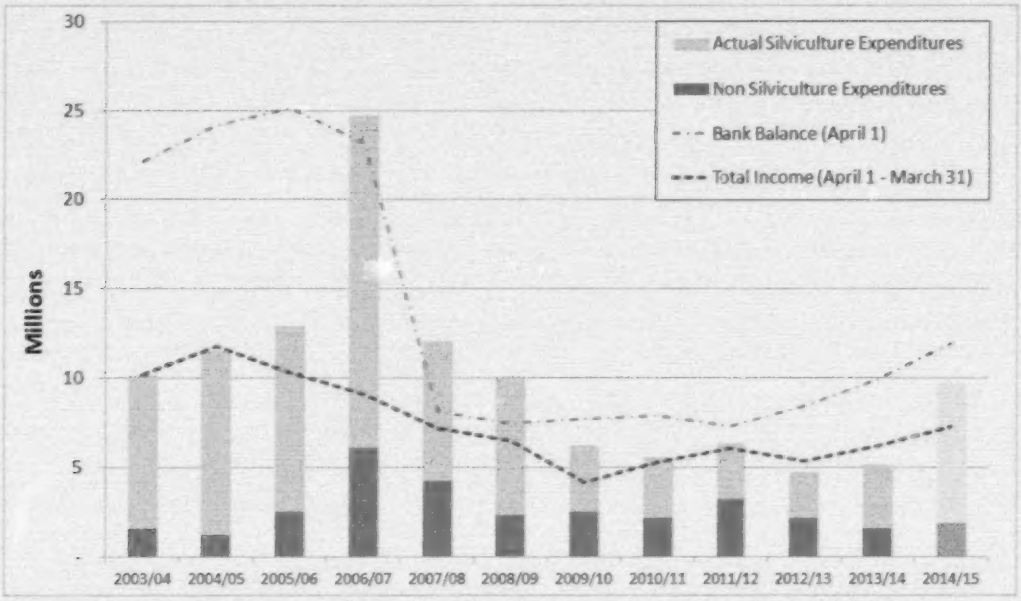


Figure 1. Schematic Trends: Forestry Futures Trust Base Charge income and expenditures 2003 to Present.

Explanation

1) Non Silviculture Costs
    a. Includes Independent Forest Audits (IFA), Memberships, Enhanced Forest Productivity Science Program (EFPS) (closed 2009), and Committee operating budget. For additional details see Annual Report.
    b. Includes operating reserve for funded projects ($500,000) to meet outstanding commitments should the program be cancelled
    c. Independent Forest Audit costs will vary based on number of audits in any given year. For example, 2011/12 was an above average year for number of audit (14 audits conducted).
2) Silviculture Costs
    a. 2006/07 includes Jack pine budworm spray
    b. 2010/11 does not include Job Stimulus Program (Round 29) expenditures
    c. 2014/15 includes projected silviculture commitments and estimate for Rounds ($3M)
3) Income
    a. Actual total year income plotted by fiscal year
    b. 2010/11 does not include Job Stimulus Program funding ($6M)
    c. 2014/15 estimate based on harvest projection (MNR)
4) Industry Downturn Response
    a. 2007/08 Fall Round & 2009/09 Spring Round cancelled call for proposals to ensure sufficient funding to meet commitments for approved projects: significant decline in harvest lead to drastic decline in income to the Trust
    b. 2008-2011 pre-cautionary approach to allocating funds in order to rebuild Trust
    c. 2012+ Trust Fund and size of program (eligible projects) rebuilding
5) Does not include enhanced Forest Resource Inventory (eFRI) or Tenure income and expenses (not part of FFT Base Charge)

I extend a sincere thanks to all of my Committee members and contract staff who provide creative input to a wide range of programs and who remain fully engaged in the delivery of the silviculture, inventory, tenure, and audit programs funded by the Forestry Futures Trust.

The Committee could not function without the collaboration and cooperation of our industrial, community, private sector and government partners who actively invest the trust funds in forest-related projects throughout the province.

Dr. H Maureen Kershaw

WHO WE ARE & WHAT WE DO

Forestry Futures Trust

The Forestry Futures Trust (FFT) was established under the authority of the *Crown Forest Sustainability Act* (1994), Part V. Section 51 of this Act states that the Minister may appoint a Forestry Futures Trust Committee to provide advice on for the following matters:

1. *The funding of silvicultural expenses in Crown forests where forest resources have been killed or damaged by fire or natural causes.*
2. *The funding of silvicultural expenses on land that is subject to a forest resource licence, if the licensee becomes insolvent.*
3. *The funding of intensive stand management and pest control in respect of forest resources in Crown forests.*
4. *Such other purposes as may be specified by the Minister.*

Source: Crown Forest Sustainability Act, Part V, Section 51(3)

Other purposes specified by the Minister for which Trust funds are currently used include:

- Independent Forest Audit (IFA) Program
- Forest Tenure Modernization
    - Enhanced Sustainable Forest License (ESFL) -design and development
    - Local Forest Management Corporation (LFMC) -design and development
    - Forest Management Component (FMC)- to cover forest management expenses on Forest Management Units returned to the Crown as a result of forest company insolvencies
- Enhanced Forest Resource Inventory (eFRI) production and delivery of forest inventories to forest managers and knowledge transfer and tool development to support it.

The Trust fund is managed by the Trustee, RBC Dexia Investor Services Trust. Funds are allocated to successful applicants under the direction of the Forestry Futures Committee Chair, supported by decisions made through consensus by the Forestry Futures Committee (FFC).

The Committee members are appointed by the Minister for a three-year term, which may be renewed at the discretion of the Minister. The Trust is primarily funded by harvest volume charges on Crown timber.

Forestry Futures Committee

CHAIR

Maureen Kershaw, PhD. R.P.F., (member since inception 1995) has an ongoing 30 year career in forestry, ecology and land use planning working for government, NGOs, educational institutes, and the private sector including establishing and running her own consulting firm since 1989. She has chaired the FFC since 2006 bringing both a practical and scientific perspective to the Committee. An active outdoor enthusiast, she volunteers her spare time on the Board of Directors of Fast and Female, an international organization that promotes sport for girls age 9 to 19 and the Board of Directors of the local Thunder Bay Hiking Association.

MEMBERS

Mike Barker, (member since 1999) had a 32-year career with the Ontario government holding positions such as District Manager, Ministry of Natural Resources, and Assistant Deputy Minister, Northern Development and Mines. He now runs his own business consulting firm.

Bob Elliott, R.P.F., (member since 2006) has had a varied career with the government of Ontario's Ministry of Natural Resources, MacMillan Bloedel and Weyerhaeuser. He now owns a consulting business.

Erik Wang, R.P.F. (ON and BC) (member since 2011) holds Bachelor and Masters Degrees from Lakehead University and UNB. His 30 year career in forestry has included positions with industry, university and consulting sectors primarily in NB and BC with technical expertise primarily in the areas of resource planning and timber supply forecasting.

Herb Bax R.P.F., (member since 2012) is a forestry consultant with over 35 years experience. He is past president of the OPFA and has served on numerous international committees and boards. Herb's work as an environmental and forest auditor across Canada and the US brings an international perspective to the Committee.

Our Support Team

Assisting the Committee is a small team reporting to the Chair:

- Ken VanEvery, R.P.F., Independent Forest Audit and ESFL Program Coordinator
- Tracey Bradley, R.P.F., Silviculture and eFRI Program Coordinator
- Sarah Bros, R.P.F., Independent Forest Audit Analyst
- Anastasia Frisby, Office Administrator
- Claire Riddell, Financial Information

FFT Secretariat – The Ministry of Natural Resources Forestry

Since its inception in 1995 the FFC has enjoyed a productive working relationship with Ministry of Natural Resources Forestry (MNRF) staff. As the Committee's mandate expanded over the decade, the lines of communication and the number of Ministry contacts correspondingly increased. In this regard, the Ministry Forestry Futures Trust Secretariat functions are provided by Peter Henry, Rhonda Hancherow and Diane Black. The FFT Secretariat continues to fulfil its role while honouring the principle of committee independence on all matters related to funding allocations for projects. Other MNRF staff with whom the Committee confers, include the following:

- *IFA Program* –Spooner Collins, R.P.F., Troy Anthony R.P.F. Matt Kendrick, and Bill Morrison
- *eFRI Program* –Joe Kapron, R.P.F. and Murray Radford.
- *Tenure Modernization*- Andy Lemmetty, R.P.F. and Kevin Coombs, R.P.F.

Thanks to Chris Walsh, Director - Forests Branch; and Faye Johnson Director – Forest Tenure and Economics Branch; David Hayhurst Director – Operations Branch and Wayne Barnes Director - Business Development Branch for their continued support.

Hearst Forest site visit to Project 52-2-R1 renewal of budworm damaged stands

OUR PROGRAMS

Silviculture Program

The Silviculture program funds silviculture needs resulting from forces of natural depletion such as fire, wind, insects, disease and flooding and past poor forestry practices.

The Committee extended two invitations to apply for FFT Silviculture program funding in the 2013/14 fiscal year: Round 37 and 38. A summary of the rounds is found in Figure 2 below. Funds are distributed as a reimbursement program after work is completed.

In 2014/15, approved funding for silviculture projects totaled $4.2 million over two Rounds (37 and 38). Funding by region was well-distributed with 39% of approved funding being allocated to the Northwest Region and Northeast and Southern Regions being allocated 32% and 29% of funding, respectively. The distribution by category in Figure 3 for 2013/14, shows 52% of approved funds being allocated to Stand Improvement and 47% of approved funds allocated to projects addressing Remediation after natural disturbance. Remediation following pest infestation and projects addressing a silvicultural liability after bankruptcy each represent 1% of the approved funding request.

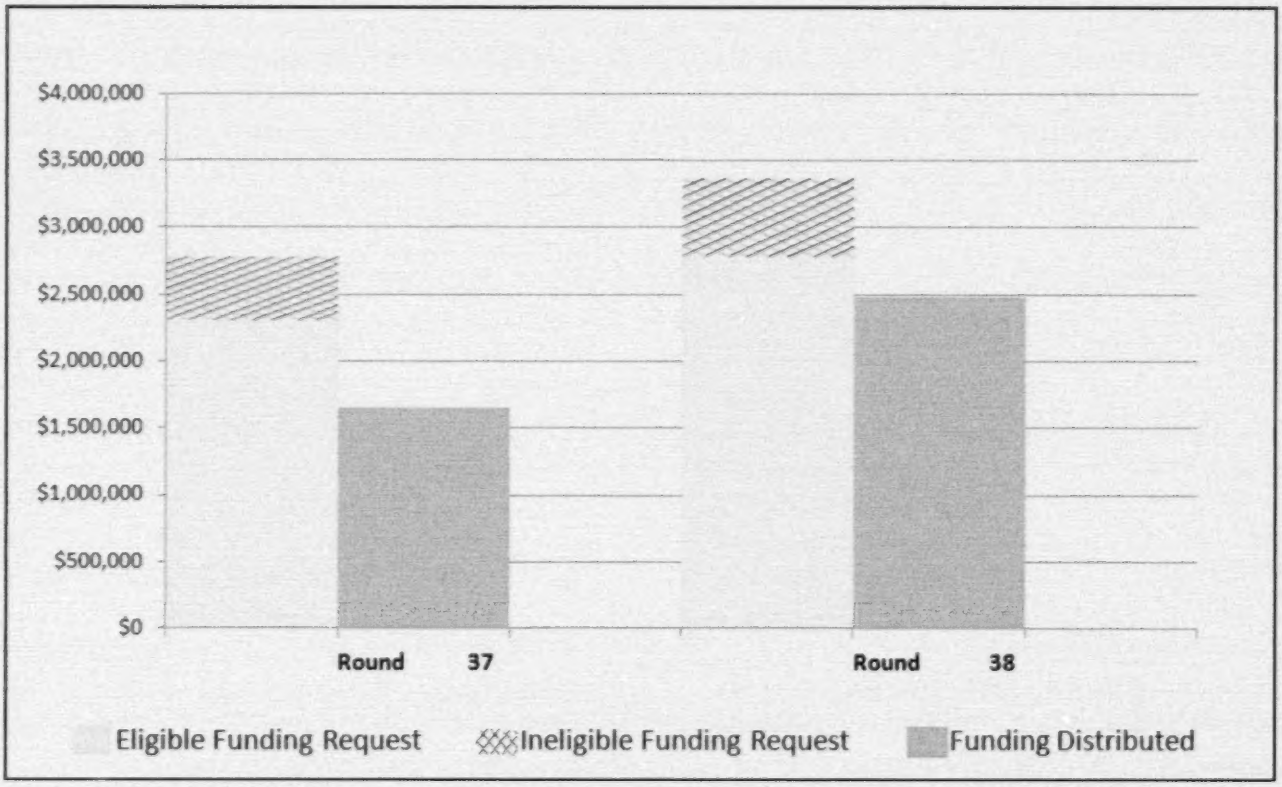


Figure 2. Summary of FFT Silviculture Funding Requests in 2013/14

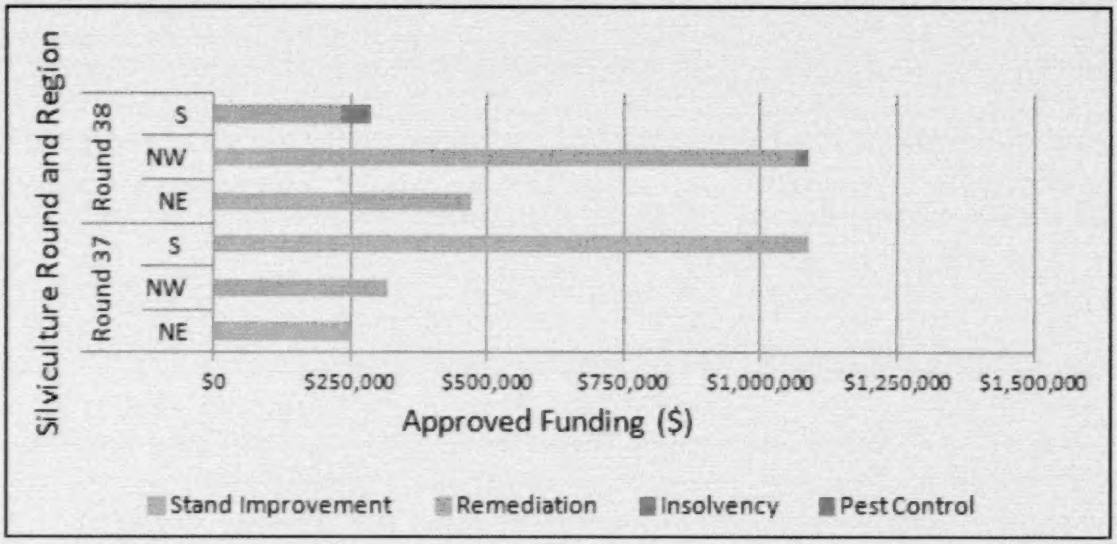


Figure 3. FFT Silviculture Funding Distribution by Category and Region in 201 /14

Forestry Futures Trust provides signs for completed projects on an annual basis. Signs are erected by the company in areas of high traffic visibility. During the summer of 2013, 14 signs were erected -5 signs in the North West region, 4 in the North East Region and 5 in the Southern Region.

The FFC has reviewed historic trends of approval for the Silviculture program in five year increments. The results of these trends can be found in Table 1 below.

Table 1. Historic approval rates (%) based on number of project in five year increments

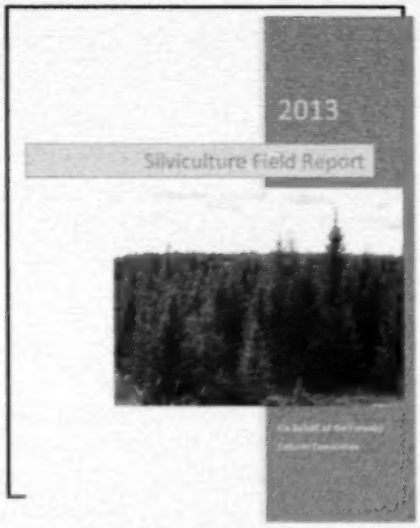
Statistic	1995/96 – 2013/14 (Round 1 – 38)*	1995/96 – 1999/00 (Round 1 – 11)	2000/01 – 2004/05 (Round 12 – 21)	2005/06 – 2009/10 (Round 22 – 28)	2010/11 – 2013/14 (Round 30 – 38)
(All Projects Approved) / (All Projects Submitted)	78%	76%	85%	71%	78%
(All Projects Approved) / (Eligible Projects Submitted)	94%	99%	95%	80%	98%
(Projects Not Approved Due to Limited Funding) / (Eligible Projects Submitted)	3%	0%	0%	15%	2%

**does not include Job Stimulus Program (Round 29)*

Note: Projects withdrawn by applicant both pre- and post-approval are considered eligible projects. Incomplete applications were deemed to be ineligible

FFT Silviculture Field Report

In 2013/14 the FFC designed a process for selecting past projects for a site visits to examine the success of the treatments. This year the emphasis was on older projects; year two will focus on Round 29 Job Stimulus Program. This initiative provided opportunities to meet with applicants and to inspect projects completed in the early rounds of the Forestry Futures Trust Silviculture Program. Eight projects were selected for the inaugural year, with results posted on our website under the Silviculture Site Visit Report. The time and energy invested by industry and the Ministry of Natural Resources Forestry staff to accompany Forestry Futures on these field visits was greatly appreciated. We look forward to continuing this program over the next fiscal year.



White Pine Stand Conversion (Project 292-1-R8) silviculture site visit in Bancroft Minden Forest

Independent Forest Audit Program

Starting with the 2012 Independent Forest Audits the Committee, in partnership with the Ministry of Natural Resources Forestry, have put in place a Vendor of Record contracting process to more efficiently allocate audits on an annual basis for the next 3 years, with an option to extend for 2 additional years. Five firms submitted proposals to be placed on the Vendor of Record list; four firms met the requirements to be placed on the list.

The 2013 Independent Forest Audit program consisted of three forests to be audited. The Committee reviewed proposals from the four firms on the Vendor of Record list to conduct the Independent Forest Audits on behalf of the Ministry of Natural Resources. The Committee selections were as follows:

Arborvitae Environmental Services Ltd.: Kenora Forest
Arbex Forest Resources Consultants Ltd.: Dryden Forest
Craig Howard RPF: Ottawa Valley Forest

Forestry Futures IFA Role

Since 2002, the Forestry Futures Trust Committee has managed the IFA Program for the Ministry of Natural Resources. FFC responsibilities include: the allocation of funds; selection of audit firms; contract management and communications with the audit firms and key audit participants; attendance at audit meetings and field examinations; ensuring the audit program is implemented according to the IFA process and protocol; review of all draft reports and ensuring final reports are of the highest quality. The Committee also provides recommendations to MNRF concerning revisions to the audit program and IFA process and protocol, coordinates auditor orientation sessions with MNRF, and makes recommendations to the Minister of Natural Resources as required or appropriate.

The three audits were awarded at a total cost of $281,927. In 2012, the contracts changed from fixed total cost contracts to having costs split between consulting per diem rates and expenses. The expenses were reconciled upon completion of the audit to equal to or less than the bid price.

The results of the three 2013 Independent Forest Audits have been documented in reports that will be tabled in the legislature by the Minister of Natural Resources. Detailed action plans to address any issues found during the audits will be prepared by the auditees and posted on the MNRF website.

Tenure Modernization Programs

Forest Management Component Program

When Sustainable Forest Licenses (SFLs) are returned to the Crown due to bankruptcy or insolvency, MNRF assumes responsibility for all forest management activities on that management unit. Forest Management expenditures incurred by the Crown to do this work are funded from additional revenue paid to the Forestry Futures Trust from the Crown Stumpage system. The additional revenue is generated by a management fee charged for each cubic metre of wood harvested on the area. This has been termed the "forest management component".

There were four active FMCs in 2013-14:

1. FMC 01-2011 Big Pic Forest: managed under the direction of Wawa District and is part of the area of that will be under the management of the Nawiinginokiima Forest Management Corporation in 2014

2. FMC 02-2011 Sapawe Forest: managed under the direction of under the direction of Fort Frances District (enhanced Forest Resource License (eFRL) issued May 2012 to Rainy Lake Tribal Resource Management Inc.)

3. FMC 03-2011 Whisky Jack Forest: managed under the direction of under the direction of Kenora District

4. FMC 04-2011 Lac Seul Forest: managed under the direction of under the direction of Sioux Lookout District (eFRL issued July 2012 to Obishikokaang Resource Corporation)

Local Forest Management Corporation

In August 2012, the Ministry of Natural Resources Forestry added the LFMC Conversion Program to the responsibilities of Forestry Futures Trust Fund. The purpose is to provide funding to support the start-up and establishment of an Ontario Local Forest Management Corporation (LFMC). The Trust serves as an interim mechanism to capture redirected Crown stumpage charges to fund start-up and establishment costs and enhanced forest management activities on the proposed LFMC management area until such time as the Sustainable Forest Licenses are issued to the LFMC.

The LFMC, Nawiinginokiima Forest Management Corporation (NFMC) was established in May 2012. In March 2013, the Committee received and approved an application from NFMC for start-up funding of $1.78 million from the LFMC Conversion Program account. The program will continue into the 2014/15 fiscal until the SFL's are fully transferred to NFMC. More information on the NFMC is available on their website www.nfmcforestry.ca

Enhanced Sustainable Forest License

The Enhanced Sustainable Forest License (ESFL) program was established in late 2011, as an outcome of the Ministry's tenure modernization initiative and the remaining funds ($1.8 million) from the SFL Conversion program were assigned to this initiative. In 2012 the Committee developed an application process with the first application submitted in April of 2013 for the Kenogami Forest.

In 2013 the Committee received 3 ESFL applications and approved funding totaling $487,648:

- ESFL-001-2013, Kenogami Forest, funding application was approved June 4, 2013

- ESFL-002-2013, Lake Nipigon Forest (includes the former Lake Nipigon and Armstrong Forests), funding application was approved July 16, 2013 under the new name Maamo Anokiidaa Forest Management Inc.

- ESFL-003-2013, Nipissing Forest, funding application was approved November 22, 2013

As part of the reimbursement process the Forestry Futures Committee has monitored progress and milestone achievements for each of these projects. Project progress and completion will be reported in the 2014/15 annual report.

Enhanced Forest Resource Inventory Program

The eFRI program engages the latest technologies and skilled interpreters to develop a new Forest Resource Inventory for the portion of Ontario that lies within the "Area of the Undertaking" as defined by the Timber Class Environmental Assessment (1994). The program is funded from a percentage of the harvest volume charge levied on tree fibre harvested from provincial Crown lands. These funds are tracked separately in a sub-account within the Forestry Futures Trust account and fund allocations are administered by the FFC.

Forestry Futures Trust eFRI Role

"The FFTC will take an active role, working in partnership with the MNRF, to administer the eFRI program. The MNRF has assumed the full responsibility for the delivery of the forest resource inventory program focusing on accuracy, completeness and currency. The MNRF and FFC will share a lead role in administering the program. The MNRF retains the overall scheduling and priority setting, standard setting, and quality control."

(Letter Kershaw/Greenwood May 8, 2007)

The FFC, in partnership with the MNRF, provides the administrative management for the eFRI program. MNRF designs and manages the core program, following all regulated work standards and government procurement and contract management regulations. FFC reviews and approves the annual work plan within a living 10 year plan prepared by MNRF and approves the release of funds from the Trust for eligible eFRI expenses.

MNRF Annual Update on eFRI Deliverables

The 2013/14 fiscal was the seventh year of the program which built on an earlier forest inventory program funded through the Trust. Activities that were carried out in 2013/14 included:

- Standardized Water Classification covering approximately 41,752 sq. km.
- Semi-Global Matching Elevation Data covering approximately 60,317 sq. km.
- Measurement of 52 permanent forest inventory ground plots
- Measurement of 381 permanent forest inventory photo plots
- Continued development of the eFRI Assessment Plot Sampling Design
- Meetings held with the Forestry Futures Trust Committee and Provincial Forest Inventory Advisory Committee
- Training sessions held for field crews and photo-interpreters that will be producing the eFRI for the Algoma Forest, English River Forest, Magpie Forest, Northshore Forest, Sapawe Forest, Spanish Forest, Sudbury Forest, Temagami and Trout Lake Forest
- Knowledge Transfer and Tool Development focused on practical application of the imagery
- An online Introductory to GIS course was developed as a tool to assist those using the imagery
- An eFRI workshop was held February 2014 to inform decision makers of the applications of the imagery

Forest	Calibration plots installed and measured	Approximate Area Interpreted
Abitibi River Forest Phase I	complete	~382 sq. km
Abitibi River Forest Phase II	2,557	0 sq. km
Algoma	1,741	0 sq. km
Algonquin	complete	~3,398 sq. km
Caribou	1,051	~878 sq. km
Cat Lake / Slate Falls	1,223	0 sq. km
Constance Lake Area	complete	~2,246 sq. km
Dog River-Matawin	1,820	~789 sq. km
English River	2,296	0 sq. km
French-Severn	0	~916 sq. km
Gordon Cosens	complete	~15,354 sq. km
Hearst	complete	~2,325 sq. km
Magpie	875	0 sq. km
Marathon Block	complete	~166 sq. km
Nipissing	1,990	~91 sq. km
Pineland	complete	~521 sq. km
Sapawe	600	0 sq. km
Spanish	2,424	~1,368 sq. km
Sudbury	1,265	0 sq. km
Temagami	1,118	0 sq. km
Trout	1,699	0 sq. km
Wabakimi Provincial Park	925	0 sq. km
Wabigoon	complete	~4,247 sq. km

An essential component of the eFRI program is the Knowledge Transfer and Tool Development. This component, led by Forestry Futures Committee, is designed in collaboration with the MNRF to develop products and tools for managers, professionals and technical staff to effectively use the imagery and inventory to carry out their work. The program is also designed to communicate the approach used to collect the imagery and to develop the inventory. Training events and workshops that engage the users with the eFRI developers, have been a key component of the program to date. The Knowledge Transfer and Tool Development component is a program that adapts to the needs of the forest industry, government regulators and other clients.

In 2013/14, the Forestry Futures Committee, in partnership with MNRF and Lakehead University, held a one-day workshop February, 2014 in Orillia that introduced eFRI to resource managers and presented a number of applications that can be derived from eFRI products.

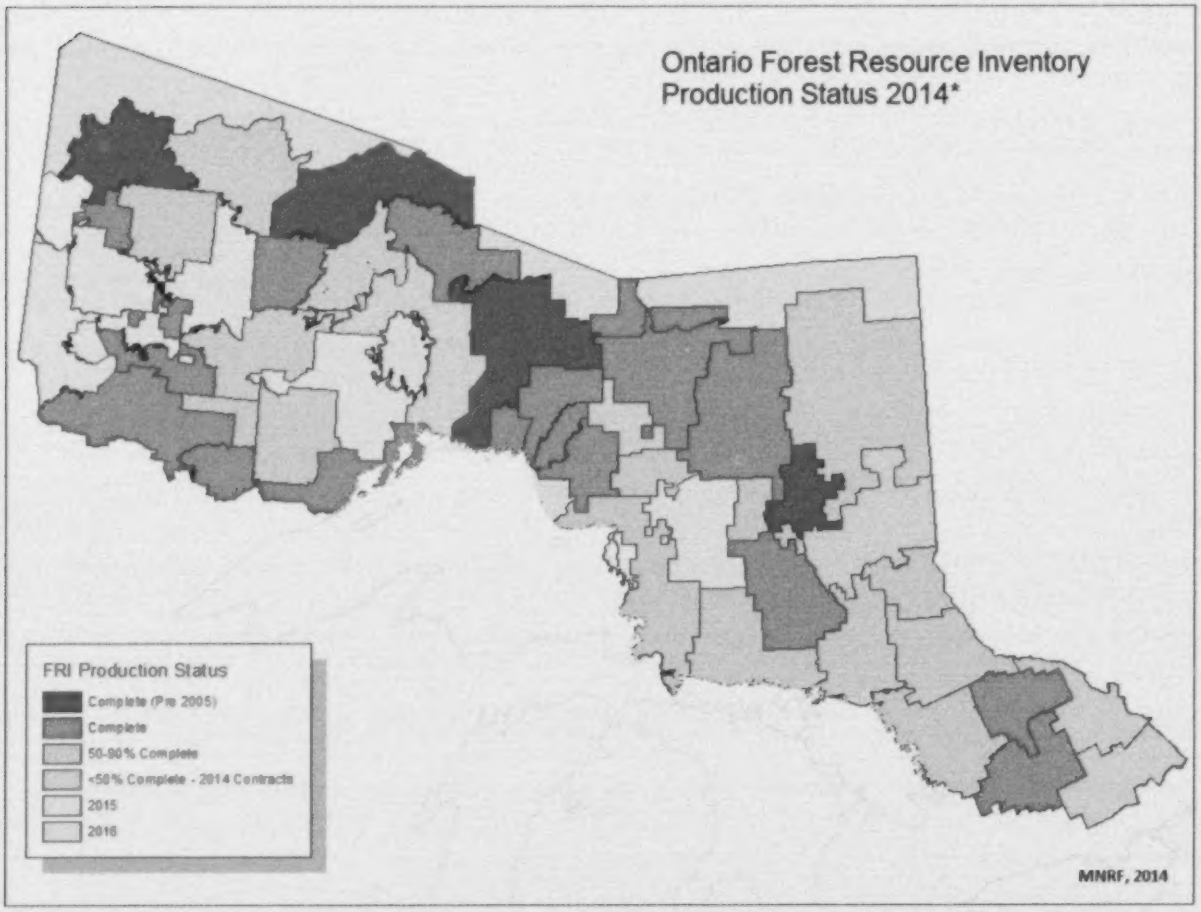
Nine registrants from government, industry and conservation authorities actively participated in the course. The morning session focused on understanding the data that is collected and provided an overview of software requirements (and costs) and options available for viewing the 3D forest imagery. The afternoon session presented case studies and provided examples of cost savings derived from using the new eFRI and the imagery. Of particular interest to the

group were the examples of the application of the use of the imagery for fieldwork (i.e. transferring the 3D imagery to hand held devices such as iPads, Playbooks and GPS units).

Key topics presented included:

- Imagery availability for southern areas
- Soft copy options, storage requirements, and challenges related to data management
- Image capture – how it was done and what challenges were encountered
- Sample applications for the use of imagery data

The Forestry Futures Committee and MNRF staff (KTTD team) held regularly scheduled meetings throughout the year. In 2013/14, the KTTD team developed a Work Plan document for the group, a communications plan and hosted a meeting that brought individuals representing several business areas within MNRF to identify and discuss connections among the program areas and the EFRI. This meeting fostered opportunities for collaborations. The outcome will be reported in next year's annual report.



Please note, although inventory is indicated as complete, it may not be distributed at this time

COMMITTEE OPERATIONS

Committee Operations Budget – *2013/14*

Available Funds	
Received from the *Forestry Futures Trust Fund*	$523,860.00
2012/13 unspent balance	$136,140.04
TOTAL Funds Available	**$660,000.04**

Expenditures	
Meetings/Travel	$74,236.96
Committee (per diems)	$82,917.50
Professional Staff	$139,770.29
Admin Support	$72,285.25
Supplies (communication/consumables)	$17,981.13
Equipment / Signage	$11,729.87
Overhead (insurances/lease/accounting)	$50,123.16
TOTAL Expenses	**$449,044.16**

Note: A list of New, Ongoing and Completed FFT Program projects can be found on our website.
http://www.forestryfutures.ca